COMMISSIONER BECKER: Thank you, Mr. Wilhelm and Mr. Simmons. We will start the questions. Any volunteers?

CHAIRMAN WEIDENBAUM: Thank you both for your statements. You present some serious problems, clearly. We are going to have a panel this afternoon on the environment. I connect in part the rise of the environmental statutes and the plight of your industry, and see if there's something to that.

The CAFÉ dual economy standards in effect require reducing the weight of the automobile very substantially. Over the last few decades that has been done. That is reducing a major source of demand for American-made steel. Do you folks, either of you, have any comment on the role of the CAFÉ standards in the plight of the steel industry?

MR. WILHELM: Yes. I would like to address two issues in that. First of all, the CAFÉ standards certainly have affected our industry in terms of making it lighter and better, but I think some of that would have occurred anyway.

An automobile today still uses the same percentage of steel that it did 20 years ago. It's 55 percent. But it is the absolute number is a whole lot less than it used to be. But accompanied with that has been a whole surge of increase in business in other

areas. In effect, the steel we're producing for cars today we didn't even make 10 years ago. It's higher strength. It's thinner. It's easily formable. We continue to work with the automotive companies.

We just finished developing what we call the ULSAB, the ultra-light steel auto body, which is the body in white that takes 40 percent of the weight out of the car. Now we're working on the panels and the closures. But the United States' automotive market has continued to increase.

We are now on a pace to build something like 16 million vehicles. This year, the average weight of a car, the sport utility vehicles and the mini vans has increased. Yes, CAFÉ has affected us, but automotive is still a very good business for us.

The second thing I would like to address in terms of EPA is from an integrated steel manufacturer, the problem that we have with coke production. I think you know coke is made by taking coal, heating it in ovens for 18 or 20 hours, and producing almost a pure carbon that's used in the reductive process in blast furnaces. We have sitting out here up the Monongahela River, about 10 miles from here, Clariton Works, which is the largest and the most environmentally -- and the most productive coke plant in the United States, and

possibly in the world. We are competing with coke brought into this country from China.

Now there is something in the neighborhood of 300 million tons of coke produced in the world on an annual basis. Fifty million of it comes from China. Twenty five million of it comes from beehive ovens, which is the equivalent of heating coal in an open field in a barrel. No environmental controls, nothing on it. We think the environmental costs to us to produce a ton of coke at Carlton is around $30. We are the most productive, the most efficient. Our costs are even with anybody, except we cannot compete with coke that is made in those kinds of operations.

So I would say the EPA effect is more on the manufacturing side than it is in CAFÉ or any of those other kind of places.

MR. SIMMONS: If I may add to that, the market for stainless steel in the United States has grown at five to six percent per year over a 30-year period. The imposition of environmental rules on the automobile industry actually caused a dramatic increase in the demand for stainless steel. All of you have looked under your car. You have a catalytic converter and you have an exhaust system. They are all made of stainless steel. By the way, it happens to be a grade that my company invented in 1957.

So the environmental rules apply to us. Fortunately we are not integrated, so we don't have to deal with the problems of imported coke. We do have to deal with the problems of specialty steel that is subsidized or owned by its governments or financed by the World Bank, as one is currently being in China, that can then use the U.S. market to displace us in some of these new applications that I talked about.

COMMISSIONER BECKER: I would like to stay with the competition factor for just a second. You talk about EPA and requirements here in the United States. I would assume that it is very costly for the company to meet those requirements and adds to the pricing of the product that you make.

Expanding that same theory, you are required to meet rather stringent requirements to clean the water that you process before it goes back into the ground, you have to meet other social costs in the United States, like for Social Security, where you have to pay the provision in part for the company, and you have to pay the employees enough so they can pay their share.

If you run this string out of costs that you are required to pay in the United States in order to maintain a decent caring society for children and for older people -- unemployment comp., workman's

compensation to protect the workers, OSHA that's constantly under attack -- and you add all those costs on there that you have to provide, and we have no intention of doing away with them here in the United States, how do you feel about that as a competitive factor?

How do you compete with a country that does none of those things, not just with the beehive ovens on coke, and does not meet any other environmental requirements, and they can use child labor and they don't provide anything. Would you expound on that a little bit?

MR. SIMMONS: Well, it goes without saying that the costs of making specialty steel or carbon steel, if I can speak for Paul, is substantially higher in the United States than it is any place in the world, particularly in a Third World country, a less developed nation.

From my standpoint as I look at the perspective of 46 years, 27 of which was as the President of my company, we can compete with that. It is a terribly difficult thing to do, but we have been able to remain profitable. What we don't know how to do, and which by the way, no administration over the last 40 years has been willing to address, is how do we compete with companies that don't have to earn a profit

over long periods of time, don't have to earn the capital to reinvest in their business to remain productive, and don't have to do any of the other things about which you talked, George.

The fact that we won -- we filed 34 trade cases out of my industry in 1977 and 1978 alone, and won all but one of them. All that has done is slowed down the rate of increase of imports. Of course, under the new GATT laws and under the WTO, dumping cases have a sunset now of five years, where before, at least we had the benefit of reviews from time to time, but the burden of proof was on the guilty party.

The final point I would make on that is that even when we win, we don't win anything. Because under anti-dumping and countervailing duty laws, we don't get any damages. For 15 years we have been trying to get through Congress a private right of action law that would permit us, when we won an anti-dumping finding in which we had been injured, we could file a civil case against the guilty parties. As you well know, currently we won 33 cases. All of the tariffs go to the Federal Government. They go to the Treasury Department. Our employees don't get them, and the companies don't get them. It is a little bit like robbing a bank, being caught, and being told don't do it again.

Unfortunately, that's the way the system works. That's why I said earlier it is difficult for me to be an optimist.

MR. WILHELM: George, to get a little more specific, we think the EPA costs in our company were about six or seven percent of our product cost.

COMMISSIONER LEWIS: What percentage?

MR. WILHELM: Six to seven percent of our final selling price. If you put together the OSHA, the benefits, and all the rest of that, we're up in the 10 to 15 percent range. So it is an enormous number. If you look back in the first half of 1998, our average selling price was around $474 a ton across all product lines. So take 15 percent of that. You will come up with a number that comes pretty close.

The other thing I would like to say is when we benchmark our operations against foreign competition, we have now run about three man-hours a ton. We are probably the most efficient industry in the world. To compete with the Japanese, we would have to add another man-hour a ton to our cost in order to benchmark them on a man-hour per ton basis. Of course, you get down into Mexico, the numbers are up into the 15 and 20 man-hours per ton.

So to repeat what Dick said, we are extremely competitive. We will match our variable

costs up against anybody, but we can't compete when you throw these kinds of costs on top of there that we have to do and they don't. Then the fact that they are subsidized. They don't have to pay taxes. They don't have to show a margin. It's just a very non-competitive situation.

COMMISSIONER BECKER: Commissioner D'Amato?

COMMISSIONER D'AMATO: Thank you, Mr. Chairman. Thank you for this testimony. It seems to me that from what I understand, I worked for many years for Senator Robert Byrd, so I am familiar with the problems of the industry. We are extremely competitive. You have made that point. We have got laws on the books that either have not been enforced vigorously or are inadequate, or both. I mean winning all these trade cases, it's nice to put the scalps on the wall, but everybody is walking out the door with growing employment.

Is it proper to assume that your conclusions are that we need an emergency action program in order to put into place some new tools, probably through legislation, to stop this hemorrhaging? If you had to put into place two or three, if you had your wish list, two or three things that would do the most good, what would they be?

MR. SIMMONS: How about one. Private right of action. That would stop dumping. It would stop subsidized sales. It would stop the kind of explosive increase in imports that happen every few years. By the way, gentlemen, it is not because our currency is weak or strong. This has happened over a 40-year period, so that argument doesn't fly any more.

Private right of action that would allow companies, after they had gone through the process, of filing an anti-dumping case, the 11 months it takes to get a case adjudicated, if you can prove injury, you ought to be able to recover damages.

What that would do is cause foreign companies to think twice before they did it. Right now, there is no penalty.

COMMISSIONER LEWIS: What's the argument against that?

MR. SIMMONS: Well, the argument against that is that first of all, those people who are against any form of trade restrictions, fair or unfair, don't want anything that would impede the flow of trade. By the way, economists will say to me, as they have for 30 years in government, particularly in the CEA and particularly in the Treasury Department, if foreign companies want to subsidize the American consumer by

dumping steel here, what's wrong with that? That is a quote. I have heard it for years.

Now it is very difficult to have an intelligent debate over how you solve the problem because you see in the broad scheme of things, it is unimportant whether we have a specialty steel industry or have a carbon steel industry. We'll make it up with people all buying computers, you see.

That is the argument. It is an argument that was used as I went to every cabinet officer through three administrations. I can tell you who said it, if you want to ask me after the meeting.

COMMISSIONER BECKER: They're still saying it.

MR. WILHELM: I would have given the exact same answer as Dick. Private action is the right way to go. I would only add one thing to that, is we have a horrible information system that is extremely slow in bringing information as to what is actually coming into this country. The Mexicans and the Canadians have a system that is 100 percent better than ours, that has the countries that are going to bring product here, tell us when it's coming, rather than after it gets here.

So if we could have the proper information flow and the right to private action, we could solve this problem.

COMMISSIONER BECKER: Commissioner Wessel?

COMMISSIONER WESSEL: As you well know, during the Asia crisis some two years ago, the IMF stood up and provided a number of funds, and also had some structural adjustment programs for those countries. So on the one hand, our taxpayer put their funds at risk through the replenishment of the IMF. On the other hand, your companies and the steel workers faced the additional cost of lost sales and lost jobs.

Do you think it would be appropriate to deal with the over capacity as part of these adjustment programs in the future, if your problem is the 250 million tons, if I remember the figure correctly, that as we move into, for example, China's accession to the WTO, as we look at IMF bailouts, et cetera, in the future, that we use those, the leverage we have under those programs to take some capacity out of the system?

MR. WILHELM: I'll take the first crack at this. I had the 250 million ton over capacity. I think the problem of worldwide capacity has to be dealt with. We have a number of joint ventures around the world. One is now currently in Central Europe. We looked at a number of ventures to try to expand our

presence around the world. We find that a lot of this capacity operates as an employment center rather than a profit center. It is there for all the wrong reasons. It is unprofitable, it's uneconomical, it's environmentally unsound, yet it is kept alive by subsidies and government programs that keep the schoolteachers and the policemen and the librarians and the rest of them employed.

We looked at a mill in Kazakhstan a couple of years ago that had -- it was the equivalent size of our Gary, Indiana, plant that produces 6 million tons a year with 7,000 employees. They produce 3,000 tons a year, with 35,000 employees. Yet --

COMMISSIONER LEWIS: Three thousand tons?

MR. WILHELM: Three million tons with 35,000 employees. They are out in the marketplace competing with us.

So this issue of worldwide capacity has to be dealt with. Another example is the company, and this was one of the IMF problems, at Hanbo Steel in Korea. It was built by the Federal Government at a cost of $2 billion. They are producing a million tons of steel. We would build that company in the United States for $400 or $500 million. Yet it sits out there and it competes with us. This issue has to be dealt with.

MR. SIMMONS: From a practical standpoint, those people who understand international law better than I, say to me, "Look, Dick, we can't tell China not to build too much capacity." But what we can do as a nation is to protect and make it impossible for these countries, which in many cases are non-profit making ventures, to injure U.S. companies.

Now there's two ways that they injure us. Number one, they injure us in our own home market. Secondly, they then injure us by preventing us from competing against them in other markets around the world.

I find it very interesting, for example, that the Japanese ship almost no steel to Europe. The Europeans ship almost no steel to Japan. The Koreans just across a short distance of water, ships almost no steel to Japan. But all of them ship massive amounts of steel to the United States.

A steel industry, first the carbon steel industry, and then a specialty steel industry, is strategically important to all of these nations. First, the developed nations and then the less developed nations. If in fact this Commission is going to examine trade flows and trade balances, then I urge you to look not just at the total trade imbalance, but

the trade imbalance of manufactured goods, for the reasons that I have already outlined in my testimony.

I am not sure that any of us are in a position to tell China not to build a steel plant. Expecting a question like that, I brought a newspaper article with me from October 19th. The World Bank has granted a loan of $98.8 million and another $78.8 million was granted by the German government's Bank for Reconstruction to build a stainless steel plant in China. The headline is "Why is the U.S. so mad about China aid?" This runs to the heart of what it is we're talking about.

Now my company built, just started this year, a small precision stainless steel plant in China. By the way, I can answer some questions about employment costs. We didn't get any government aid. We are there because our customers in the United States have gone there, and we can't supply them from the United States any more. Notice the difference between what we have done and what Krupp is doing, the German company, in China, with some of it U.S. taxpayer money.

COMMISSIONER BECKER: Why can't you supply them? Is it because you don't have the capacity, or the quality or that you can't get into their market?

MR. SIMMONS: Well first of all, there are 25 percent import tariffs going into China. That's

number one. But number two, we are just too far away, George, to supply somebody who may need the kind of deliveries that is far shorter than it takes to get a container ship from the United States to China. You just can't serve the market.

COMMISSIONER BECKER: Your mill in China does not intend to import back into the United States?

MR. SIMMONS: Not intended to do that at all. In fact, we hope to be able to use it to serve the Asian market, China, Southeast Asia, and possibly the European market. In fact, many of these people were trained by steel workers in our Wallingford steel plant in Connecticut.

COMMISSIONER LEWIS: A lot of American companies have built overseas plants to manufacture goods there and export them back to the United States. Why hasn't the steel industry done that?

MR. WILHELM: Most of the plants, at least that I'm familiar with, are plants that use steel. It is our customer base rather than the steel companies themselves.

But as the General Motors of this world move globally, we will follow them if it can be an economical decision for us. That's why we're trying to move into Central Europe right now.

COMMISSIONER LEWIS: No, but you are supplying the steel in Central Europe to companies in Central Europe. But the automobile companies have built plants overseas to sell cars back to the United States.

MR. WILHELM: Right.

COMMISSIONER LEWIS: Why has the steel industry not built plants overseas to sell steel back to the United States?

MR. WILHELM: That has not been economical for us to do that. In order to bring steel back into the United States, it's probably about a $60 freight bill to get it here. We can produce it more economically in the United States, up until this trade issue, than we could produce it overseas and bring it here.

COMMISSIONER LEWIS: Then what you are saying is the foreign steel manufacturers are all losing money also?

MR. WILHELM: I don't know that they are losing money, but they are not making any money on what they ship over here. I think we have proved that in the trade suits.

CHAIRMAN WEIDENBAUM: Do you import steel into the U.S.?

MR. WILHELM: No. Sometimes when we have a major blast furnace relined or something like that, we will buy slabs to keep continuity with the customers and continue to run our strip mills because we don't have enough iron, but it is on a spot basis. So the answer is no, but on a spot basis we will do it occasionally.

COMMISSIONER LEWIS: Are you selling any steel to automobile plants in Mexico?

MR. WILHELM: Yes. General Motors, Chrysler, Volkswagen.

COMMISSIONER LEWIS: From the United States?

MR. WILHELM: Yes. Produced here in the United States.

COMMISSIONER BECKER: Are these companies requiring that you build or have sources of supply in Mexico? Is there any effort on this overall?

MR. WILHELM: They are requiring that we have some Mexican content. So we maybe have a slitting line down there or a galvanizing line, something like that, George.

But as Dick says, in order to supply them on a just-in-time basis, you almost have to be there with them. We are in the process of following them around the world.

COMMISSIONER BECKER: We're starting to run tight on time again.

COMMISSIONER LEWIS: Mr. Simmons, were you going to answer one of the questions?

MR. SIMMONS: I was. Most people, including me, start with the assumption that no one goes in business to lose money. But that isn't the way the world of trade in some of these strategic metals operates. So when you say, well why don't you make steel in another country and bring it back into the United States, most of the people we compete with are losing money. All of our six Japanese competitors are losing money.

So why would we want to build a plant there to export back to the United States? We are efficient. We are profitable. By the way, we are also constrained by the amount of capital we have. So we want to put our capital where we think it can be best used. We are in a very capital-intensive business. We have just gotten done spending $200 million about 20 miles from here.

COMMISSIONER LEWIS: Are you saying then in most of the foreign countries, that the steel plants are partners with the governments there?

MR. SIMMONS: Of course. That's the way it has been for 40 years.

COMMISSIONER WESSEL: A quick follow-up question to Mr. Simmons' statement that the China facility is also going to be sourcing into Europe.

MR. SIMMONS: We hope.

COMMISSIONER WESSEL: You hope. But why couldn't that be, because you talked about the need to be close to the customer to respond quickly, why couldn't that more easily come from the U.S. facilities? Are you building excess capacity in China to do that?

MR. SIMMONS: We're building additional capacity. It is a duplicate of two plants we have in Connecticut. To be honest with you, all-in labor costs in China will be $2.50 an hour. Our all-in labor costs in the United States are $37.50 an hour. By the way, the all-in labor costs in Europe are about $37.50 an hour. So for us to break into those markets, only with specialties, not with commodities, we have to be able to produce it, once again, we're in business to make a profit and make a return on capital. We have to produce it more cheaply.

The products we're making over there are much more labor intensive than our average product mix. We are making things like hypodermic needles stock and floppy disk shutter doors, things that have a very large labor component where our customers have moved to

China. The primary purpose is to serve the Chinese market. However, if we are able to serve the European market, it will only be because we have a service center in Europe that can be the bellows for just-in-time delivery.

COMMISSIONER BECKER: To a degree you have already commented on barriers in other countries. I would like to hear a little bit more on that, particularly on carbon steel, the difficulties in exporting it into Japan and South Korea, for example.

MR. WILHELM: Let me take the automotive industry. The Japanese are sending steel here from Japan over to Detroit to the automotive manufacturers and selling that product for probably about $150 a ton less than they sell it to their own companies in Japan. Now we would love to be able to take our product, go into Japan at those kinds of prices and sell to the Hondas and the Nissans, and the Toyotas, but we can't get in. I mean it is an absolute closed market.

Most of those markets are serviced by trading companies that are owned by the steel companies. In order for us to get in, we would have to go through the trading companies. You cannot ship steel into Japan to the automotive market. Europe is closed.

One of my prime examples I like to use is after the Persian Gulf crisis, the oil companies had to rebuild the wells over there. We, U.S. Steel, are a prime producer of oil country tubular products. We got zero business from the Persian Gulf because we were undercut by 50 percent in our pricing going into that market.

COMMISSIONER LEWIS: By Europe or by Asia?

MR. WILHELM: By Europe. Europe took all that business. If I remember, we were a pretty big player in the Persian Gulf.

COMMISSIONER WESSEL: And we paid the cost of reconstruction as well, if I remember.

MR. WILHELM: We the steel industry did not benefit from that.

COMMISSIONER BECKER: I think that's all of the questions. I want to throw one other real quick one out here for you. When I first started tracking steel imports into the United States, it must have been in the early 1970s. At that time, we had in effect given up some 14 to 15 percent of our market. It was constantly filled. That was the import levels.

Today, I notice that we're up to 23 to 26 percent, that we don't fill it all. Is this an irreversible trend that we continue to lose more and more of our market? That we can't service ourselves in

the United States? Or is there any opportunity? Do you see a day when we can produce our steel here in the United States to the extent that we need to fill it?

MR. SIMMONS: Well first, we're the only industrialized nation in the world that has a steel deficit. Every other industrialized nation in the world makes more than they consume. Therefore, they export the difference. Where do they export it? Mostly to the United States.

Secondly, George, I wouldn't be very optimistic that anything will change. In the case of my industry, imports have taken more than all of the growth this decade, more than all of the growth. Growth is vitally important because that's how you justify additional -- partly how you justify additional capital investments. If we don't change the laws, this process is irreversible. After 40 years of fighting the battle, nothing will change. By the way, it isn't one political party or the other political party. There is a free trade mentality in this country that says if it's good for the consumer, it's good, regardless of whether or not it destroys key manufacturing industries in this country or not, and regardless of whether or not we have a $300 billion trade deficit.

COMMISSIONER BECKER: I want to ask a question then. We just went through an exercise in trying to pass a steel quota bill in the United States. Would either one of you gentleman want to comment on that at all?

MR. WILHELM: I don't think quotas are the right way to handle this. I think downright flat out competition, where we can be competitive is the right way to do it, but it has to be on a level playing field. That's why I think that 1505 is the right way to go, so we level out the playing field.

Just to expound on what Dick said a minute ago, I think the process is irreversible if the laws don't change. But if the laws do change, and to go back to what we talked about before, if we can be profitable in these operations, we will continue to invest in this business and we'll increase our capacity.

But if things don't change, we will not invest. It's just a simple economic decision we have to make.

COMMISSIONER BECKER: I read something a long time ago that said that human beings were the only species of animal that could predict its own death. It sounds like you agree with that.

Are there any other questions at all?

CHAIRMAN WEIDENBAUM: There's one word we haven't mentioned. I hate to use profanity, but it's called mini mills. Does anyone want to talk about this?

MR. WILHELM: I'll be happy to address the mini mills. Yes, there has been a lot of hype about mini mills, particularly in the sheet side of the business. I think that's really what we're talking about where they came in with this new compact strip mill process, Nucor being a prime example, Steel Dynamics being another one. There have been a number of them built, 8 or 10 million tons of capacity. Some of them, the Nucors have done very well.

But the bottom line in this whole thing is what is their manufacturing costs compared to ours. What we use as a basis for manufacturing is what we call the hotband, which is the coiled steel strip that's made from a slab. From a manufacturing cost standpoint, our costs are equal to or better than theirs. I am talking about the integrated steel industry.

What they don't have, because they are a new industry, is they don't have the 100 years of legacy like we all have. We sit here with 90,000 retirees and EPA problems and the land that we own that has to be remediated, those kinds of things. But as

new technology comes on, that's fair competition. We have no qualms with the mini mills.

MR. SIMMONS: If I can add, the specialty steel industry is and are mini mills. That's what we are. While I have the highest regard for people like Ken Iverson at Nucor, who built Nucor, the fact remains, he started with a clean sheet of paper. He didn't have five retirees for every active worker to support. He didn't have an awful lot of the legacy costs, both pension and post-retirement medical costs, that companies like mine that have been in business for 100 years have to face.

But the fact remains that if somebody can make the product more efficiently than my company can or my industry can, so be it. We believe in the free market system. That is, by the way, one of the reasons I don't believe in quotas. Quotas will cause us to become less efficient.

Private right of action, I hope everyone will write that 10 times. That will stop dumping before it occurs. It will give us stability. It will provide us with the kind of confidence that we need to keep investing the kind of money that we need to invest.

COMMISSIONER D'AMATO: Just one follow-up. You also mentioned information, prior information flows

and Mexico has a better system. I'll take a wild guess that if we tried, we could probably put into place a system as good as Mexico's.

MR. WILHELM: It isn't that difficult.

COMMISSIONER D'AMATO: But I actually would like to see a detailed proposal that you have in mind in terms of what kind of information flows would help us out in this respect, and what other countries are doing in terms of prior information.

COMMISSIONER BECKER: This is one of the areas that the government has promised to get itself into very heavily, so that we will get this information as needed.

MR. SIMMONS: And Mr. Chairman, if I can just conclude, good information, fast, is important. But if the laws don't change, it still takes a period of time when you can just prove injury, file a case, wait 11 months, after which you may or may not get some temporary respite.

So good information is piece in the puzzle. It is not the fundamental solution.

MR. WILHELM: Just real fundamental. We get our information 45 days after the material lands on the docks. Mexico and Canada get it when it's loaded on the boat in Japan, for example. It takes four weeks

to get over here, so they have got two-and- a-half month lead time on us.

COMMISSIONER WESSEL: That's to an advanced licensing system?

MR. WILHELM: Yes. It's not a licensing system to bring it in, it's just information.

COMMISSIONER BECKER: If nothing else, I want to thank the panel. It was very interesting, and the presentations were good. The answers were even better. Thank you.

(Whereupon, the foregoing matter went off the record at 11:12 a.m. and went back on the record at 11:21 a.m.)

COMMISSIONER BECKER: I don't run as tight a ship as my Chairman over here does. He will probably never let this happen again. We have Alan Tonelson from the U.S. Business and Industry Council, Washington, D.C. and Michael Knetter of Dartmouth College, in Hanover, New Hampshire.

How is it going up in New Hampshire?

MR. KNETTER: Pretty exciting.

COMMISSIONER BECKER: Pretty exciting right now. It’s way out of proportion, isn't it? I mean the eye of the Nation is upon you. That's a different subject entirely.

We are very pleased that you are with us today. Why don't we start with Mr. Tonelson.

Incidently, the rule that we have had a hard time enforcing is that we have seven minutes, five minutes solid for your testimony, and then two minutes to wrap up. We're not asking you to read your testimony. You can sum up however you want to do that. Then we'll have questions.